



STATE OF MAINE REVENUE FORECASTING COMMITTEE

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 James Breece, University of Maine System
 Marc Cyr, Principal Analyst, Office of Fiscal and Program Review
 Ryan Low, State Budget Officer
 Grant Pennoyer, Director, Office of Fiscal and Program Review
 Catherine Reilly, State Economist

February 28, 2006

TO: Governor John Baldacci
 Members, 122nd Legislature

FROM: Jerome Gerard, Chair
 Revenue Forecasting Committee

RE: **Summary of March 2006 Revenue Forecast**

The Revenue Forecasting Committee has concluded its review of the revenue forecast and has revised its revenue projections for the General Fund, Highway Fund and the Fund for a Healthy Maine to comply with the statutory March 1st reporting date. The forecast for each of these funds was revised downward, largely as a result of the more pessimistic economic forecast updated by the Consensus Economic Forecasting Commission in its February 1st statutory report. This memo and attachments summarize the results of the March revenue forecast. A more detailed report will be available early in March. Provided below are the summaries of the aggregate forecast for these funds.

Summary of Revenue Revisions

General Fund Summary (Detail in Attachment A)

	FY05 Actual	FY06	FY07	FY08	FY09
Current Forecast	\$2,790,845,053	\$2,855,420,638	\$2,952,015,876	\$3,015,653,150	\$3,110,929,801
Annual % Growth		2.3%	3.4%	2.2%	3.2%
Net Increase (Decrease)		\$1,889,771	(\$16,173,721)	(\$22,940,461)	(\$30,066,929)
Revised Forecast	\$2,790,845,053	\$2,857,310,409	\$2,935,842,155	\$2,992,712,689	\$3,080,862,872
Annual % Growth		2.4%	2.8%	1.9%	2.9%

Highway Fund Summary (Detail in Attachment B)

	FY05 Actual	FY06	FY07	FY08	FY09
Current Forecast	\$326,078,155	\$335,352,879	\$340,999,732	\$346,517,898	\$353,462,015
Annual % Growth		2.8%	1.7%	1.6%	2.0%
Net Increase (Decrease)		(\$4,445,720)	(\$615,999)	(\$273,751)	\$169,747
Revised Forecast	\$326,078,155	\$330,907,159	\$340,383,733	\$346,244,147	\$353,631,762
Annual % Growth		1.5%	2.9%	1.7%	2.1%

Fund for a Healthy Maine Summary (Detail in Attachment C)

	FY05 Actual	FY06	FY07	FY08	FY09
Current Forecast	\$49,124,793	\$43,353,622	\$44,409,679	\$76,504,714	\$78,434,308
Annual % Growth		-11.7%	2.4%	72.3%	2.5%
Net Increase (Decrease)		(\$335,591)	(\$720,395)	(\$2,643,362)	(\$2,589,850)
Revised Forecast	\$49,124,793	\$43,018,031	\$43,689,284	\$73,861,352	\$75,844,458
Annual % Growth		-12.4%	1.6%	69.1%	2.7%

For the **General Fund**, this forecast results in a partial reversal of the substantial upward revision of the December 2005 forecast. Over the 2006-2007 biennium this reversal, driven by the downward revision to the economic forecast, reduces General Fund revenue by \$14.3 million, less than 9% of the \$164.4 million increase recommended by the December 2005 revenue forecast. The downward impact of the economic forecast change on the Individual Income Tax and Sales Tax revenue lines was mitigated in the short term by the recognition of positive variances in several revenue sources not as directly tied to the Maine economic forecast, largely the Corporate Income Tax, Estate Tax and the Cigarette Tax lines. In fact, the revenue forecast for FY06 is actually increased in this forecast by \$1.9 million. The impact of the February 2006 economic forecast on the Sales Tax line was lessened by the addition of a fuel price variable in the model for the December 2005 forecast. At that time, the committee reduced the revenue estimate for Sales Tax despite a substantial increase in the Personal Income growth assumptions of the November 2005 economic forecast. The downward economic forecast revision of March 2006 that was more pessimistic for each year of the forecast period has a compounding effect on the revenue forecast in future fiscal years. Without the offsets of the FY06 revenue variances, the downward revisions grow worse each year. For the 2008-2009 biennium, this downward revision totals \$53.0 million, increasing the 2008-2009 structural gap.

The committee would like to convey to the Administration and Legislature once again that we continue to forecast in a very uncertain global economic and geo-political environment that can create huge swings in income from year-to-year. This is particularly applicable for the narrow group of taxpayers at the extreme end of the income distribution that pay a large percentage of Maine's individual income tax. The committee will continue to monitor the individual income tax refunds and final payments leading up to April 15th to determine if the new forecast is proceeding as expected.

For the **Highway Fund**, this forecast decreases the 2006-2007 biennium's budgeted revenue by \$5.1 million. In FY06 the committee reversed \$3.0 million of a \$3.6 million gas tax audit assessment that was recognized in the December 2005 forecast. The forecast also recognizes the effect on the Highway Fund investment earnings of cash balances that have been drained by budget problems in the Department of Transportation's capital program. Unlike the General Fund, the downward revisions of Highway Fund revenue do not worsen over the long run because the higher inflation assumptions of the February 2006 economic forecast offset the lower economic growth assumptions as a result of the indexing of fuel tax rates to inflation. The downward revenue revisions for the 2008-2009 biennium are \$0.1 million, with the FY09 revenue revision being positive.

The **Fund for a Healthy Maine (FHM)** was revised significantly downward for the 2006-2007 biennium by the December 2005 revenue forecast, based on an assumed delay in the receipt of tobacco settlement payments pending the outcome of “significant factor proceedings” under the Master Settlement Agreement. There has been no change in that assumption in this forecast. This forecast once again adversely affects the FHM as a result of updated assumptions related to the “Racino” in Bangor. With 3 months of actual revenue data, the committee revised a central assumption about the player payback percentage. That percentage has been substantially higher than the 89% minimum required by law and assumed as part of the previous forecast. As a result, the FHM revenue forecast for the 2006-2007 biennium is reduced by an additional \$1.1 million. The downward reduction for the 2008-2009 biennium is \$5.2 million, when the effect of an additional 6-month delay in the assumed opening of the permanent facility is added to the negative effect of the change in the payback percentage assumption. The impact of these assumptions on the General Fund revenue forecast was offset in the short-term by an increased forecast of the General Fund’s 1% share of the total adjusted slot machine income (“coin-in”).

Attachments

cc: Members, Revenue Forecasting Committee
Members, Consensus Economic Forecasting Commission
Jane Lincoln, Chief of Staff, Governor’s Office
Rebecca Wyke, Commissioner, DAFS
Millie MacFarland, Clerk of the House
Joy O’Brien, Secretary of the Senate
David Boulter, Executive Director, Legislative Council
Legislative Staff Office Directors